A facility may request an interim adjustment as described above only once, unless it can demonstrate extreme hardship in the recruitment and retention of staff. Such an adjustment based on extreme hardship will be granted no more often than once every six months. Facilities must submit a cost report to the Division of Audit when applying for an interim adjustment. Facilities must submit a cost report to the Division of Health Care Audit when requesting such an adjustment.

7030 Establishment of Prospective Per Diem Rate

7031 Principle. For payment periods beginning on or after April 1, 1989, the Department will establish an interim and prospective per diem rate to be paid to each facility throughout its fiscal year. The prospective rate shall consist of three components: the fixed cost component as defined in Principle 7012.1; the variable cost component as defined in Principle 7012.2; and the reasonable cost of employee wages, salaries and benefits as defined in Principle 7012.21 and 7012.21.

The fixed cost component shall be determined based on actual fixed costs incurred by the facility. The variable cost component, less wages, salaries and benefits, shall be determined in the following manner. Each facility's base year shall be its fiscal year ending in 1988. For any facility sold after December 31, 1988 the variable rate will be determined from the base year of the seller. Costs approved through the certificate of need review shall determine the base year for new facilities entering the program.

Total operating costs for the base year (fiscal year ending in 1988) shall be adjusted as follows: The total dollar amount of the audited operating costs will be reduced by the fixed cost component, medical supplies, workers compensation insurance premiums, employee wages, salaries, fringe benefits, professional liability insurance and mandated direct care staff training except those that are part of the central office overhead costs. This amount will be divided by total patient days in the base year.

For subsequent years, the variable cost component shall be determined by adjusting the reasonable, necessary and variable costs incurred by the facility during the previous year by the DRI to reflect the expected increase in the costs of goods and services the facility must purchase during the prospective year.

Central Office Bookkeeping costs as spelled out in Principle 4112.2 are to be considered as part of the variable costs component and are not subject to rebasing. The base year costs of this procedure inflated by the DRI, will become an allowable cost built into the variable cost component. For sale of existing facilities or for existing operators who wish to establish a central office bookkeeping system, their costs will become part of the variable component with the cost being the lesser of the budgeted amount or the present cost of bookkeeping services that are allowable. When a central office bookkeeping system is set up, salary costs will be removed from retrospective reimbursement and will be transferred to the variable cost component.

The Wage, Salary and Benefit component shall be determined based on actual costs of wages, salaries and benefits for the previous year and shall be adjusted retrospectively at the time of final settlement.

The Department will assign an interim prospective rate at least fifteen days prior to the commencement of a facility's fiscal year or immediately following the availability of the inflaticnary information which will take effect for all services rendered on or after the first day of that fiscal year.

Upon completion of a final audit of a facility's cost report, the Department will assign the facility a final prospective rate.

Example: A facility with a base year of December 31, 1988

20,000 patient days		
Total Operating Costs	$860,000	
Less: Fixed Costs	(173,000)	
Medical Supplies	(29,000)	
Workers Comp Ins	(18,000)	
Salaries	(400,000)	
Fringe Benefits	(72,000)	
Base Year Variable Costs		168,000

$168,000 - 20,000 = $8.40 per patient day

$ 8.40 variable cost per patient day

7040 Inflation Adjustment

The "skilled nursing facility" market basket forecasts published quarterly by Data Resources, Inc. of Washington, D.C. will be used to determine the expected increases in the cost of the goods and services which must be purchased by Intermediate Care Facilities for the Mentally Retarded. In computing the variable cost component of each facility's prospective rate, the base rate of each facility whose fiscal year ends during a given calendar quarter will be adjusted to reflect the forecasted change in the market basket of facilities whose fiscal year ends in the same quarter of the following year. The most recent forecast published by DRI prior to the beginning of a quarter will be used to determine the inflation projection for facilities with a fiscal year ending in that quarter.

Example

Facility X's fiscal year will end on July 31, 1982. Facility Y's fiscal year will end on August 31, 1982. Facility Z's fiscal year will end on September 30, 1982. If Data Resources, Inc. forecasts an increase of 8.3 percent in the cost of goods and services purchased by facilities whose fiscal year ends during the third quarter of 1983, that forecast will be used in the computation of the inflation adjustment included in the variable cost component of the prospective rates to be paid to Facility X, Facility Y and Facility Z.

7050 First Year Prospective Rate

7051 Interim Prospective Rate

The interim prospective rate for a facility's first fiscal year in the prospective system will consist of two components; a fixed cost component and a variable cost component. The fixed cost component will be determined from the allowable fixed costs included in the facility's most recent audited cost report. The fixed cost component will be subtracted from the rate currently approved by the Department to yield the base amount of the variable cost component of the prospective rate. The base variable cost component will be adjusted by an inflation factor to reflect the expected increase in the cost of goods and services the facility must purchase during the prospective year.

The fixed cost component, the base amount of the variable cost component and the inflation adjustment will be added to produce the interim prospective rate.

Example

Facility A, a fully occupied, eighty bed facility, has a fiscal year beginning July 1, 1982. Fifteen days prior to its fiscal year, the department establishes an interim prospective rate.

During the year ending June 30f 1981, Facility A incurred allowable expenses of $1,073,100 and had a total of 29,200 patient days. Its total per diem cost of $36.75 was comprised of $8.20 of fixed expenses and $28.55 of variable expenses. The fixed cost component of the interim prospective rate is $8.20.

The rate currently approved for Facility A is $40.42. The fixed cost component of $8.20 is subtracted from the approved rate of $40.42 to yield the base amount of the variable cost component of $32.22 ($40.42-$8.20).

The cost of goods and services facilities must purchase is expected to increase by eight percent* during the twelve month period beginning July 1. 1982. The base amount of the variable cost component will be adjusted by eight percent.

Fixed Cost Component (as of 6-30-81)	$ 8.20
Variable Cost Component	32.22
Inflation Adjustment ($32.22 x .08)	2.58
	$43.00

The interim prospective rate of $43.00 will take effect for all services rendered on or after July 1, 1982.

*Eight percent is used for example purposes only. See Section 7050 for means of determining inflation projection.

7052 Final Prospective Rate

Upon final audit of a facility's base year cost report, the Department will establish a final prospective rate. The final prospective ate will be used as the basis for determining any incentive payments at fiscal year end.

The final prospective rate will consist of two components; a fixed cost component and a variable cost component. The fixed cost component will be the actual allowable fixed costs incurred by the facility based on the base year audited cost report. The variable cost component will be the actual allowable variable costs incurred by the facility based on the base year audited cost report adjusted by the expected increase in the costs of goods and services which the facility must purchase in the prospective year.

Example

Upon audit of Facility A's cost report for fiscal year ending 6-30-82, the Department determines that the actual allowable fixed cost per day was $8.00, and the variable cost per day was $32.00. The final prospective rate would then be $42.56.

Fixed Cost Component (as of 6-30-82)	$ 8.00
Variable Cost Component (as of 6-30-82)	32.00
Inflation Adjustment ($32.00 X. 08)	2.56

7053 *(not in use)*

7054 Payment Adjustment for First Year Interim Versus Final Prospective Rate

If a facility's final prospective rate is greater than its interim prospective rate, the Department will estimate the number of days of care it has provided to Medicaid beneficiaries during the current fiscal year, multiply that number by the difference between the final prospective rate and the interim prospective rate and forward that amount to the facility within thirty days.

If a facility's final prospective rate is less than its interim prospective rate, the Department will estimate the number of days of care it has provided to Medicaid beneficiaries during the fiscal year, multiply that number by the difference between the final prospective rate and the interim prospective rate and request that the facility pay the resulting sum. The facility may elect to either pay that sum within ninety days or request the Department to reduce its payments during the balance of its fiscal year by that amount.

7055 First Year Base Limitation

In order to prevent those facilities whose fiscal years begin after July 1. 1982 from incurring additional expenses in order to inflate the base used in the determination of their final prospective rate,, facilities with fiscal years beginning after July 1, 1982 will be subject to a first year base limitation. This limitation will be used to determine base year allowable variable costs and the variable cost per day which will be used as the base for the first year final prospective rate.

The allowable rate of increase in base year variable costs for facilities with fiscal years beginning after July 1, 1982 will be limited to the forecasted rate of inflation as of the commencement of a facility's base year. The forecasted rate of inflation is based on the "skilled nursing facility" market basket published quarterly by Data Resources Inc. (DRI) of Washington, D.C.* The following schedule shall be used to determine the base year limitation*:

DRI Forecast as of:	For Fiscal Years Ending:	% Limit*
July 1981	3rd Quarter 1982	8.9%
October 1981	4th Quarter 1982	8.5%
January 1982	1st Quarter 1983	7.6%
January 1982		7.9%

Any reduction in payments resulting from the limitation will be imposed only in proportion to that part of a facility's fiscal year which occurs after July 1, 1982.

*The forecasted rate of inflation is the "percentage change in the fiscal year ending this quarter over the previous quarter (%MOVAVG)" (See DRI publications).

Example

Facility C is a fully occupied, eighty bed facility. During the fiscal year ending December 31, 1981, it incurred allowable variable expenses of $934,400 or $32.00 per day.

During fiscal year ending December 31, 1982, its variable costs increased by 10% to $1,027,840 or $35.20 per day. The 1.0% increase in variable costs exceeds the 8.5% rate of inflation which was forecast by DRI as of October 1, 1981 for facilities with fiscal year ending in the 4th quarter of 1982. For that reason, Facility C's allowable variable expenses will be limited to an 8.5% increase in proportion to that part of the facility's fiscal year which begins after July 1, 1982.

This is calculated as follows:

1)	Multiply the allowable variable costs incurred by Facility C during fiscal year ending December 31, 1981 by 1.085 (the forecasted rate of inflation).	$ 934,400 x 1.085 $1,013,824
2)	Subtract the product of (1) above from the actual variable costs incurred during fiscal year ending December 31, 1982.	$1,027,840 -1,013,824 $ 14,016
3)	Multiply the difference calculated in (2) above by that percentage of Facility C's fiscal year which occurred after July 1, 1982.	$ 14,016 x .50 $ 7,008
4)	Subtract (3) above from the variable costs incurred during the year ending December 31, 1982	$1,027,840 - 7,008 $1,020,832

The allowable variable costs for Facility C for fiscal year ending December 31, 1982 is $1,020,832. The variable cost per day which will be used as the base for the first year final prospective rate is $34.96 ($1,020,832 ÷ 29,200 days).

7057 Occupancy Adjustment

An adjustment for an annual occupancy of 80% or less will only apply to that portion of a facility's base year prior to July 1, 1982. The following example illustrates the determination of the occupancy adjustment for that portion of a facility's base year prior to July 1, 1982.

Example

Facility Q is an 20 bed facility with a fiscal year ending September 30f 1982. During the year ending September 30, 1982, it incurred allowable expenses of $273,750, had 5,475 patient days and an occupancy of 75%. The amount of the facility's base year allowable expenses and base year per diem is calculated as follows:

(1)	Actual allowable base year expenses* (after computation of base year limit and prior to application of 80% occupancy rule)	$273,750
(2)	Allowable base year expenses* (after application of 80% occupancy rule)	$254,549

(3)	Amount of disallowance (line 1 - line 2)	19,201
(4)	Portion of year after July 1, 1982	.25
		4,800
(5)	Base Year Allowable Expenses (254,549 + 4,800)	$259,349
(6)	Base Year Allowable Per Diem (259,349 ÷ 5,475)	$ 47.37

*Allowable expenses include allowable fixed expenses and allowable base year expenses after computation of the base year limit.

7060 Second and Subsequent Years: Interim Prospective Rate

At least fifteen days prior to the commencement of a facility's second fiscal year in the prospective system, the Department will assign it an interim prospective rate which will take effect for services rendered on or after the first day of that fiscal year.

The interim prospective rate in the second and subsequent year is the sum of 1) the fixed cost component of the final prospective rate in the first year and 2) the variable cost component of the first year final prospective rate and 3) an inflation adjustment. The inflation adjustment is the forecasted increase in the cost of goods and services as determined in accordance with section 7040 multiplied by the variable cost component of the first year final prospective rate.

The interim prospective rate in the third and subsequent fiscal years will be determined in the same manner as outlined in the second year.

Example 1

The Department assigns Facility A an interim prospective rate at least 15 days prior to the commencement of its second fiscal year in the prospective system, i.e., July 1, 1983.

The fixed cost component of the final prospective rate in the first year equals	$ 8.00
The variable cost component of the first year final prospective rate was $34.56 ($32.00+$2.56)	34.56
Assume the infl	
ation forecast for fiscal year beginning 7-1-83 is 8.7%. The inflation adjustment is $3.00 ($34.56 x .087)	3.00
The second year interim prospective rate is	$45.56

7070 Final Audit of First and Subsequent Prospective Years

7071 Principle

All facilities will be required to submit a cost report at the end of their fiscal year on cost report forms provided by the Department. The Department will conduct a final audit of each facility's cost report which may consist of a full scope examination by Department personnel and will be conducted on an annual basis.

Upon final audit of a facility's cost report for the first and subsequent prospective years, the Department will:

1) determine the actual allowable fixed costs incurred by the facility in the prior fiscal year,

2) calculate a final prospective rate and,

3) calculate any overpayments or underpayments made by the Department based on the above determinations.

7072 Settlement of Fixed Expenses

7072.1 The Department will reimburse facilities for the actual allowable fixed costs which are incurred during a fiscal year. Upon final audit of a facility's cost report, if the Department's share of the allowable fixed costs actually incurred by the facility is greater than the amount paid by the Department (the fixed cost component of the final prospective rate multiplied by the number of days of care provided to Medicaid beneficiaries), the difference will be paid to the facility by the Department. If, on the other hand, the Department's appropriate share of the allowable fixed actually incurred by a facility is less than the amount paid by the Department, the difference will be paid to the Department by the facility. (See section 7076 for calculation of over and under payments.)

Example

Facility A's first year final prospective rate included a fixed cost component of \$8.00. During the year ending June 30, 1983, it actually incurs an allowable fixed cost per day of \$8.05. Ninety percent (90%) of the 29,200 days of care it provided (26,280) were provided to Medicaid beneficiaries. Thus, the Department owes the facility its share of the difference between the actual costs paid under the prospective rate. This equals \$1,314 ((\$8.05 - \$8.00) x 26,280).

7072.2 Costs associated with medical supplies, malpractice insurance, mandated direct care staff training and mandated A.C.C.D. accreditation are treated as fixed costs, effective April 1, 1989. The costs associated with these expenses are eliminated from the facility's variable rate by either inflating the facility's base year cost of the DRI inflationary index to determine the current cost built into the prospective rate or by the present cost, whichever is lower, and subtracting this amount from the facility's current variable rate. For the purpose of determining the facility's variable service cost limitations, malpractice insurance costs are included in the variable cost component of its prospective reimbursement rate.

7074 Incentive Payments

All intermediate care facilities for the mentally retarded will be able to retain an incentive payment equal to 75% of the savings represented by the difference between the Department's appropriate share of its allowable expenses and the amount paid by the Department.

The amount of the incentive payment will be determined upon final audit and will be calculated in the determination of any overpayments or underpayments made by the Department (See Section 7076).

Example 4

The variable cost savings which Facility A and the Department will share was determined to be $14,717 (See Example 3). Since all intermediate care facilities for the mentally retarded will retain an incentive payment equal to 75% of the savings, Facility A will retain $11,037.75 (.75 x 14.717) and the Department will retain $3,679.25 in savings (.25 x $14,717).

7074.1 Conditions for Incentive Payment

A facility which is seriously deficient in the maintenance of its physical plant or the care provided to residents will not be entitled to receive an incentive payment. The issuance of a conditional or temporary license or a formal notification to a facility that its payments will be reduced if it does not immediately correct its deficiencies will render a facility ineligible to receive an incentive payment. In such cases, the Department will recover the full amount of any difference between the Department's appropriate share of its allowable operating expenses and the amount paid by the Department.

7075 Second Year and Subsequent Final Prospective Rate

7075.1 Second and Subsequent Year Final Prospective Rate

Upon final audit of a facility's cost report, the Department will calculate a final prospective rate.

The final prospective rate in the second and subsequent years is the sum of 1) the actual fixed costs per day in the facility's prior fiscal year and 2) the lesser of the actual variable costs per day in the prior fiscal year or the variable cost component of the prior year prospective rate and 3) an inflation adjustment (the operating component of the prior year final prospective rate times the inflation projection).

Example

1)	Facility A's actual fixed cost per day for the year ending June 30, 1989 was:	$ 8.05
2)	Facility A's actual variable cost per day for the year ending June 30, 1983 was:	34.00
3)	The inflation adjustment is the variable cost component of the first year final prospective rate times the projection of inflation ($34.56 x .087= $3.01)	3.01
4)	Facility A earned an incentive of $11,479. Its per diem incentive amount is $.44 ($11,479 - 26,280 days of care)	.44
5)	Prospective Rate	$45.50

7076 Calculation of Overpayments and Underpayments

Upon determination of final prospective rate in the second year, the Department will calculate the net amount of any overpayments or underpayments made to the facility.

If the Department determines that it has underpaid a facility, it will estimate the amount due and forward the result to the facility within thirty days. If the Department determines that it has overpaid a facility, the Department will so notify the facility. Facilities will pay the total overpayment within sixty (60) days of the notice of overpayment or request the Department to reduce facility payments during the balance of its fiscal year by the amount of the overpayment. Facilities that do not notify the Department of the method of by which they intend to repay the overpayment will, beginning 60 days after their receipt of the notice of overpayment, have their subsequent payments from the Department reduced by the amount of overpayment.

If a facility appeals a determination of overpayment, the facility must repay within sixty (60) days of the notice of overpayment all portions of the determined overpayment except those that are expressly disputed and for which specific dollar values are identified. Repayment of each